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# Centralization versus Decentralization in Management

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LET us understand by decentralization, diffusion throughout the personnel, as far as practicable, of the active principles or motivation of the organization. These active psychological principles are perception of purpose, responsibility, authority, initiative, interest in the outcome of the enterprise as a whole, together with an understanding of the social value of the enterprise. The application of these principles is materially affected by the mechanical arrangement of the organization, but decentralization must have a broader meaning than the mere arrangement of component parts.

Mechanically speaking, organization of management is the harmonious marshalling of the functions of management and the coördination of the activities of its different elements for the purposes of production. The mechanical influences tending towards centralization, or towards decentralization in management are largely affected by the questions of size and complexity of the undertaking. Decentralization of management in a very small shop is hardly possible, and is certainly not desirable, while over centralization in management of a very large manufacturing industry may be highly undesirable.

In the early days of industry organization was a simple matter, but as manufacturing developed from household industry and the small individually owned and managed shop, with its unspecialized labor, to the complex relationships of the elements of modern large scale production with its specialization of labor and subdivision of processes, organization of management has become a matter of most serious concern to the leaders and organizers of productive enterprises.

Centralization and decentralization are opposite and balancing conceptions and the center of gravity of an organization lies intermediate between the two extremes, now approaching one,

and then the other. The nearer the center of the organization approaches the ideal mean, the less becomes the friction of its operation.

I should like to emphasize that the center of purpose of an organization must lie outside of, and beyond itself, that an organization is not an end in itself, but a means to an end. It should not evolve as a conscious effort to establish this or that type of organization viewed merely as an organization, but must be considered first and last in its relations to the particular conditions and circumstances of the enterprise. One should by all means avoid the mistake of endeavoring to adapt too much his productive effort to a theory of organization or of management.

Too many organizers of industry proceed on the basis of a theory of management which they may have known to have been applied elsewhere, being unconscious of the fact that what may be a good method under one set of conditions might, under different conditions, prove disastrous.

Nothing discourages capable and experienced men more than to be "hamstrung" by the organization fantasies of some enthusiast blindly following a theory of management which is ill adapted to the particular conditions, and perhaps, impossible for any conditions.

Purely decentralized or centralized managements do not exist, and we may consider practically all industrial organizations as a complex combination involving both the centralized idea, and the decentralized idea of management. In fact, it is doubtful if the balance between the two conceptions is consciously arrived at in any case, but is effected by the play of ideas applied to the solving of organization problems as they arise, and the adaptation of methods to conditions.

There are some general considerations which should apply to all cases:

- (1) Central control, with the end that uniform policy and discipline shall be maintained, and the activities of the different departments shall be properly coördinated.

- (2) Decentralized and delegated authority and responsibility to the end that initiative shall be encouraged, and that special, local and emergency conditions can be met on the best terms.

It has become the fashion with some to think that the initiative

and brain work should be centralized at the top and that merely the manual or physical execution of the work should be left to the workmen. In this connection, one important fact should not be lost sight of, a fact of most vital importance in industry, namely, that the work should be interesting to the workmen.

There is nothing so destructive of happiness and contentment as the deadly daily monotony of uninteresting and uninspiring work. How to make the daily work interesting and inspiring to the workmen is the really great problem of the organization of industry. To organize a factory or department from the standpoint of greatest efficiency as a purely productive undertaking, is one thing; while at the same time, to meet the spiritual and mental needs of the workers it becomes a very different proposition, but, nevertheless, this is the vital part of the problem. Purely manual work requiring no play of intellect can under no circumstances appeal to the interest of the workman. He must feel an interest both in the method and the result; he must find exercise and play for his mind and his imagination. Many men of independent power work because they like to work, never realizing that the reason they appear more industrious and efficient than some others is that they have the privilege of choosing work that interests them, while, at the same time, it may not have occurred to them to give any thought to the question as to whether or not the work of the subordinates is made as interesting and inspiring as possible.

Organizations seldom spring, Minerva like, full grown from the head of the executive, but develop and change as the need arises or with the growth of the undertaking. A well balanced organization with a given personnel may require to be materially modified, even with a minor change in personnel. It should be the duty of the central control or head executive to maintain a vigilant eye upon the organization, and at the needed moment increase or decrease the centralizing factor. It may be, too, that the severity or character of the functions will materially change, and a delegated or functional task which was formerly not beyond the capacity of a subordinate, will require to be subdivided.

The most important thing about an organization whether centralized or decentralized is the spirit in which it is conceived and carried out.

There is no place in management for the autocrat, and there rightly never has been. A natural autocrat might set up theoretically a most excellent and highly decentralized organization, but under autocratic administration it would in effect, be highly centralized in its operation. It is vain to delegate responsibilities and authorities while at the same time nullify them by autocratic administration. The autocrat lives, breathes and exists only through fear of his subordinates, and nothing so paralyzes the faculties as fear. Such an executive is not likely to profit by the loyal support of his subordinates, or to receive helpful suggestions and advice from anyone; a result fatal to the development of an efficient and effective organization.

On the other hand, even the proverbial one-man plant will function admirably under the administration of certain types of men. One who takes his subordinates into his confidence, seeks suggestions and advice, and, by making all spiritual partners in the enterprise, builds up an *esprit de corps* and morale which cannot be surpassed for effectiveness, efficiency and contentment. In fact, while mechanically of a highly centralized type, this is psychologically a decentralized organization.

I do not wish to give the impression that one-man management is desirable. Its objections are too obvious and well known to warrant discussion here. It is desirable, however, that the distinctive virtues of the personal "one-man management," should be realized in every organization as far as possible. I refer, of course, to the sympathetic and mutual understanding and personal touch which should exist between the executives and the workmen, especially those workmen occupying the less skilled positions and whose work from the nature of the case is least interesting and inspiring. Even the "pick and shovel" men receive inspiration from proper manifestations of interest in their work, their reasonable comfort, fair treatment and general well-being.

The manager should not detach himself too much from the rank and file of the organization. He should "decentralize himself" and by kindly and courteous contact with the men, as far as possible, make himself the medium through which a message of good-will and interest and respect is constantly conveyed to them as well as impressions of the ideals and purposes of his and

their joint efforts as fellow-workers in the productive enterprise. He occupies a position of peculiar advantage. His work naturally is full of purpose and inspiration and he should see to it that he shares with all in the organization, as far as possible, those things which lend zest and satisfaction to the day's work.

Decentralization means differentiation, not disintegration. The more attenuated an organization the more it must be knit together by some strong gravitating influence. The more an organization is decentralized the more important become the functions of central control, as knowledge of general conditions and the formulating of policies can only come from the top. The manager or executive delegates to departments discretion only as to their departmental activities and these departments must be constantly guided in those things which are a matter of general policy and which can only be determined from a broad knowledge of external conditions.

Every conception of management on a scale of any magnitude should embody a central control with, as far as possible, a decentralized functional organization, but the vital thing is how the control is exercised. It should be based on a broad psychological conception, otherwise the organization becomes crystallized and lacks "punch" and spirit.

Knowledge acquired at the top from external conditions and the determined policies of the business should not be "pigeon-holed" for the exclusive consumption and inspiration of the board of directors and manager, but as far as reasonably practicable, should be diffused among the personnel, along with the ideals and purposes of the enterprise, as well as information as to its general success or failure in its primary object and struggles so that the workmen can participate in the inspirations of success as well as share in a sense of responsibility for failure. It is participation in these things which lends interest to collective enterprise. Imagine a professional ball team playing game after game and never knowing the score and receiving inspiration from their money compensation only, and yet this is to a certain extent the position which has been forced upon labor in the past.

The old idea that the worker's interest in productive enterprise begins and ends with his wages must give way to a more

enlightened policy. Formerly economists believed in some theory of a fixed and immutable wage fund. There is a wage fund in the sense that labor cannot obtain more than it produces and, therefore, labor is vitally interested that production should, with a given effort, be maintained at a maximum. We must bear in mind that this has another aspect, however, than the efficiency of labor i. e. the efficiency of management.

Many wonderful examples of organization are provided by nature, which embody a balance between centralization and decentralization, conspicuous among which are the biological organisms with their voluntary and involuntary functions. These organisms of nature were developed by evolution, and evolution is a vital factor in the development of industrial organizations; so much so that it is important to avoid establishing too hard and fast a conception as to the exact detailed form the organization shall assume, as it must possess within itself the elements of growth and change in order to adapt itself to changing conditions.

Central control does not necessarily mean that all the elements of control are centered in a single individual, but that the executive controls broadly the purposes, policies, object and direction the business takes, and that all functions below him which have been delegated should, in so far as he is concerned, be automatic, with means provided so that he will be promptly cognizant of any failure or disarrangement of the functional processes. Furthermore, he must have means of knowing the degree of efficiency of the operations according to definite standards of requirements.

Consider the old simple form of shop organization of moderate size where the activities of the whole shop are directed in detail by the single foreman. Control is highly centralized in the foreman as well as the detailed direction of the work. The functional operations, however, are decentralized in the workmen. Each workman solves his individual problems according to his individual ability and experience with limited help and direction from the foreman. The work is further centralized if, as is often the case, the foreman is his own material man, does the routing, rate setting and shop engineering.

With slight modifications and extensions, the above represents the method of organization of hundreds of our shops and factories today. Whether consciously or unconsciously, such an organi-

zation presupposes as a necessary requisite that the superintendent or foreman is an exceptional man, as only a very exceptional man could efficiently perform all the various functions required of him, and in many cases even the most exceptional man could not do justice to the situation.

Factories, in many cases, started from a small beginning and were supervised in all departments by the individual owner. The undertaking was too limited to warrant any extension of organization; the growth was gradual, the owner's vision became obscured by lack of perspective, it was hardly to be expected that he would appreciate when the moment had arrived that he should avail himself of an organization. Or perhaps his well developed sense of thrift, so necessary in an infant industry, had become over developed. In many cases where the control of an enterprise has descended to a younger generation the new owners are obsessed with the idea that the old way which had been successful in the past could not be improved upon; in other cases, the condition is due to laziness or the dislike of change, or lack of appreciation of social obligation, realization of which is only possible with efficiency in production.

While many of the older industries are suffering from the effects of habit and inertia, newer industries have sprung up around them and being free from such retarding traditions have quickly developed more efficient and effective organizations.

During the past twenty years the integration of productive enterprise has proceeded at a tremendous rate. The primary object no doubt has been commercial strategy and the elimination of cut-throat competition. It has generally been thought also that by combining factories and other means of production, such as raw materials, and by the opportunity offered to take advantage of shorter and more direct freight hauls both in the shipment of raw materials to the factories and in the distribution of the finished product, material economies in production and distribution would be effected.

The integration of individual productive enterprise into the factory system began over a hundred years ago while the consolidation of factories into large combinations under more or less centralized control and management is of comparatively recent origin. This development has primarily been made possible by



the development of machinery and the modern development of devices which are comparatively mechanical in nature, such as improved methods of transportation, communication, accounting and finance.

One of the most potent circumstances attending the consolidation of business through the bringing together under one control of several factories, was purely accidental in character, and probably contributed more than anything else to the earlier successes. I refer to the fact that each subsidiary plant or factory was self-contained in its organization and thereby automatically brought about a decentralized organization of the whole undertaking.

No doubt the success of large consolidations of detached and independent factories necessarily with decentralized management under centralized control representing integrations of great magnitude has led many organizers of industry to fail to appreciate that there may be reasonable practical limits to the size which can be efficiently and effectively realized in a centralized organization.

It might be stated as an important principle of organization that the more productive enterprise becomes integrated, the more the management must become decentralized and functionalized. By functionalized, I do not refer to that kind of shop organization which is operated under functional foremen, the primary consideration of which is neither centralization nor decentralization, but is concerned with the most effective utilization of the time and physical energy of the individual workman. By functional organization I refer to specialization in departments and supervision, subdivision of authority and responsibility, according to functions in the processes of production.

The effective limits of centralized organization are usually identical with the limits of the capacity of the individual manager or executive and for this reason this policy in organization, whether pursued consciously or unconsciously, has led to dependence in many enterprises upon the *exceptional man*.

It must be remembered that the development of all democratic institutions is away from the domination of and dependence upon the exceptional man. In fact this has been the history of the development of all science. The real purpose and object of science

is so to develop and epitomize facts, invention, experience and knowledge, as to make them available to the average man. Watt invented the steam engine, but the science of thermodynamics and of the steam engine has so developed this art that we are no longer dependent upon exceptional men of the genius of Watt to design and construct the steam engine in the forms of its best development.

I do not mean to state that the science of industrial organization has reached that state where we are independent of the exceptional man. But the tendency will continue in that direction and will more and more approximate to that condition leaving it to the efforts of men of genius eventually to carry it forward to the forms of its still higher development. Exceptional men are rare and it is folly so to organize a comparatively simple industrial proposition on lines which overtax the capacity of the average man when such procedure is unnecessary in the light of the present advancement in the field of industrial organization.

A very important agency is the development of the staff organization by means of which the work of an expert character is functionalized and then decentralized.

Persons who have been employes of the government have chafed under conditions that seemed to them to place unnecessary restraints upon their functioning to their capacity and where it seemed that men were not chosen to fill positions of responsibility on the principle of selecting the men best qualified for the service. The explanation probably rests in the fact that the government so organized its work, perhaps unconsciously, as to meet the capacities of men below the average, responsibility for which must be laid to our democratic political system of choosing government employes. These conditions make it imperative that the most able and experienced organizers should manage government departments.

Organizers of productive enterprises should realize that the limits of extension in centralized organizations are soon reached while decentralization permits of extension to any reasonable limit. Not only is it important to consider the reasonable limits of centralization in the general organization of a whole industrial undertaking, but the reasonable limits to the extension of the individual departments, must also be recognized. Departments

can become so extended as to be unwieldy and beyond the capacity of even the exceptional man to supervise properly. The complexity and magnitude of the work may become so vast as to reach beyond the possible mental vision and perspective of the departmental executive and may require further decentralization by departmental subdivision subject to a local or secondary central control. We are all more or less familiar with existing departmental organizations which are so extended that efficiency is impossible to realize and the only cure for which would be decentralization to whatever extent the conception could be applied. It has become a habit in this country to attach great dignity to mere size regardless of the form and texture and unavoidable unwieldiness and inefficiency.

A discussion of the organization of management would be incomplete without some consideration of the requisites of the executive or manager in whose hands to a great measure is placed the destinies of the organization. The workers' and the public's interests are immediate and not remote and must be recognized as a paramount and present claim in the scheme of industrial organization. To this end men must be placed in charge of industries whose minds and ideals have reached some degree of mature and definite development and conviction as to the social value and obligation of business.

The organizers of industry should see to it for instance that the manager possesses a real labor policy. That he knows something about labor in relation to its needs and reasonable rights, that he knows something of its history in its struggles through the generations from serfdom to political and industrial rights. He should have some comprehension of the power of labor when controlled by united action and realize that it is the vital force of production and it must not be systematically thwarted when its vital interests and rights are at stake, but must be sympathetically, intelligently and understandingly guided, not in the direction of the supposed best interest of capital but in the direction of labor's own best interest which will in the end be the best interest of all humanity.